

# Inside One Man's Quest to Save a National Retailer

## Why a Houston Real Estate Investor Wants to Salvage Stage Stores



Stage Stores is moving through liquidation, but a Houston real estate investor, and the owner of Stage Stores' headquarters in Houston, wants to buy the national brand to convert stores into an off-price retail chain. (CoStar)

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Many teenagers want a car when they turn 16. Ali Choudhri wanted a house. With the help of his father, Choudhri bought his first piece of real estate in the 1990s, paying about \$16,000 for an East Houston home in a foreclosure auction. He renovated the property for what he estimates was eventually a \$50,000 profit.

“It was exciting,” Choudhri told CoStar News in an interview. That was the start of Choudhri’s career buying distressed real estate and turning them around for a profit. Now 25 years later, Choudhri’s company Jetall Cos. is the top buyer in a high-stakes deal

to buy Stage Stores, which [filed for Chapter 11 bankruptcy protection](#) in May and has been liquidating its more than 700 department stores in 42 states.

Jetall Cos. is racing against the clock to close the deal, which includes department stores Palais Royal, Peeble's, Bealls, Stage and discount brand Gordmans. If the deal doesn't come together in the coming weeks, the Stage Stores brands and the 14,000 jobs they support could disappear, adding another corpse to the graveyard of retailers struggling to survive the pandemic and recession.

"I feel like I'm in the operating room and have to save this patient," Choudhri said in a phone interview. "It's intense."

Choudhri said he feels a "moral obligation" to save Stage Stores and the thousands of jobs its operations support.

"Maybe we don't save 14,000 jobs in reality. Maybe we only save 10,000 jobs, but that's still significant. And in this economy, it means something, it means a lot," he said.

If successful in acquiring Stage Stores, Jetall Cos. plans to convert the company's department stores into Gordmans, an off-price chain that competes with retailers such as TJ Maxx, Ross Dress for Less and Burlington that have been successful despite changing consumer habits and the rise of e-commerce. Jetall Cos. would also look to expand Stage Stores' partnership with Amazon for last-mile delivery pickup stations in small and rural cities where it has stores.

If Jetall Cos. gets approval from Stage Stores' board and its creditors, then it would move to close the deal by the end of the month, according to Jetall Cos. It's unclear whether the creditors would approve the deal, which has not yet closed.

Jetall Cos. would have to review hundreds of contracts and leases with landlords across the country.

Jetall Cos.' effort to save Stage Stores represents another landlord that wants to buy a retailer out of bankruptcy during the pandemic. Indianapolis-based Simon Property



Group and Brookfield Property Partners have joined forces to submit a bid to buy J.C. Penney's retail business, [according to the Wall Street Journal](#). Simon Property has also [offered to buy Brooks Brothers](#) out of bankruptcy for \$325 million.



Ali Choudhri, president of the Houston-based family office company Jetall Cos. (Jetall)

Jetall Cos. would potentially have to shrink Stage Stores' footprint initially, though it's not clear by how much. Stage Stores had 769 stores at the end of January, according to the company's most recent earnings report. Before Stage Stores had a buyer, a bankruptcy court judge [approved in June](#) for the company to wind down operations and close within 16 weeks of reopening from coronavirus lockdowns.

While Stage Stores has dozens of landlords across the country, Jetall Cos. is one of Stage Stores biggest landlords because it owns [2425 West Loop South](#) in Houston's Uptown-Galleria area that is home to Stage Stores' corporate headquarters. Stage Stores moved into its 200,000-square-foot space in the building after Jetall Cos. invested millions of dollars into adding high-tech features and renovating the landmark tower designed by the late I.M. Pei, the same architect that designed the Musée du Louvre in Paris.

Choudhri, who prides himself on his contrarian businesses strategies, previously has bought up debt and properties during the bankruptcy process from companies such as shopping center behemoth General Growth Properties, which was later acquired by Simon Property Group, and Houston property manager American Spectrum Realty. His family office has bought more than 50 commercial buildings through several affiliated companies. Jetall Cos. now owns roughly 2 million square feet of commercial real estate space, mostly in Houston and Dallas.

Jetall Cos. initially [placed an offer](#) in July to buy Stage Stores' entire business for \$10 million, plus an assumption of its headquarters' lease, valued at \$65 million, according to court hearings and Jetall Cos. The investor also is discussing the possibility of acquiring about \$55 million in remaining debt Stage Stores still owes to Wells Fargo and Pathlight, according to court hearings. Joshua Sussberg, an attorney with Kirkland & Ellis, who is representing Stage Stores in the bankruptcy process, told a judge July 31 that the \$55 million was the remaining balance owed to Wells Fargo and Pathlight after Stage Stores recently paid off an asset-based loan with Wells Fargo.

In the past week, Jetall Cos. has beefed up its offer to match what Stage Stores is asking and it has removed any contingencies on the deal, Choudhri said in an Aug. 11 phone

message. Previously, Sussberg said the retailer thought its business, minus its debt and lease obligations, was worth about \$15 million.

Stage Stores officials could not immediately be reached for comment on the proposed acquisition by Jetall Cos.

Separately, Jetall Cos. is pursuing an asset-based loan, a common financial instrument in the retail world, which would allow it to stock store shelves with more inventory.

But Jetall Cos.' offer has been complicated by the fact that Stage Stores is pursuing the parallel tract of [liquidating its business](#). Last week, Stage Stores auctioned off much of its furniture, fixtures and equipment at its distribution center in Omaha, Nebraska, netting about \$300,000, Sussberg said during [an Aug. 4 court hearing](#).

And real estate firm A&G Real Estate Partners has also started marketing for sale Stage Stores' other major distribution center in Jacksonville, Texas, which Jetall Cos. considers key to revitalizing the company.

Meanwhile, the retailer's reopened stores are selling clothing at steep discounts, slowly whittling away at the \$150 million of inventory Stage Stores claims to have. Jetall Cos. has sought to pause the bankruptcy proceedings to allow Jetall Cos. to perform due diligence and continue discussions with creditors to close the sale, which he expects could take at least a month to complete. As of Aug. 12, the liquidation process was still ongoing and a hearing to confirm the company's plan for reorganization was scheduled for Aug. 14.

### **Boosting Off-Price Focus, Amazon Partnership**

Late last year, Stage Stores unveiled a partnership with Amazon to allow customers to pick up packages at hundreds of Gordmans and Stage locations through the Amazon Counter program. The idea was to get customers in the door to drop off a package, then convert those Amazon customers into Stage Stores' customers.

The Amazon partnership appeared to be working. About 25% of Amazon customers got a



### Small market focus with a concentration in south and south central regions



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A map of Stage Stores' footprint as of January 2020, though some stores have since closed. Stage Stores focuses on small markets. (Stage Stores)

coupon and bought something from Stage Stores, Choudhri said. Stage Stores saw its same-store sales shoot up 17.4% in the third quarter 2019, followed by roughly flat same-store sales growth of about 1.4% in the fourth quarter, according to regulatory filings. Even still, its stock price shot up 300% from October, when it first launched the Amazon Counter program, to January when its stock reached a high of \$9.29 per share.

The Amazon Counter program was only part of the growth. Stage Stores' executives said they were seeing success in transforming stores into off-price Gordmans locations.

Stage Stores' bankruptcy came at a time when it was in the retailer was transforming its department stores into the Gordmans brand, which it acquired in 2017. Executives had planned to convert all of their department stores into Gordmans by the end of the third quarter, according to a Jan. 13 investor presentation. The eventual goal was to have 700 stores, mostly in the south, central and eastern parts of the country.

Jetall Cos. would try to expand the Gordmans brands into rural markets where the other major off-price players, such as TJ Maxx and Ross, weren't operating.

The off-price retail market had been a bright spot for retail before the pandemic. TJX Cos., the owner of TJ Maxx, Marshalls, Sierra and HomeGoods, has more than doubled its store count in the past two fiscal years, according to filings. Ross Inc., owner of Ross Dress for Less and DD Discounts, added 88 new stores in 2019. Ross also broke ground on its biggest distribution center in the United States outside of Houston last year.

Experts say off-price retailers have long weathered recessions well by offering steep discounts when the middle class is challenged. Off-price brands also are considered somewhat “internet proof” because they offer a “treasure-hunt” experience customers can’t get online, retailer experts say.

Stage Stores “is a really phenomenal company because of the concept of converting to off-price stores. It can be huge,” Choudhri said. Jetall Cos. also could consider adding furniture, sporting goods and new products, he said.

If that off-price conversion is successful and the company can regain its financial footing, there is another potential opportunity for Stage Stores with a real estate angle. As a department store, Stage Stores often is the biggest tenant in small-town shopping centers, presenting the opportunity for Jetall Cos. to buy shopping centers and potentially create what’s known as a roll-up real estate investment trust, Choudhri said. That is just an initial idea at this point and is “an opportunity if we can create a successful national tenant ourselves,” Choudhri said.

If the acquisition is successful, Jetall Cos. plans to maintain Stage Stores' existing leadership team, which Choudhri said had been doing a “phenomenal” work prior to the pandemic. Stage Stores' leadership team includes president and CEO Michael Glazer, whose resume includes stints at Mattress Giant, KB Toys and Big Lots.